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20 November 1956

TO : Committee on Financial and Management Improvement

FROM : Deputy Chief, Finance Division

SUBJECT: Coordinating the Agency's Budget and Management Activities with Developments in the Improvement of Accounting and Financial Reporting under the Joint Accounting Program

In giving consideration to the Agency's objectives for improvement of financial management, it is believed essential to evaluate the recommendations of the Hoover Commission on Organization of the Executive Branch of the Government on Budget and Accounting, identified as Appendix 1 to the booklet titled "Improvements of Financial Management in the Federal Government" dated October 1956.

In this connection, a review of the Confidential Funds General Ledger trial balance dated 30 September 1956 has been made in conjunction with the General Ledger account definitions as prescribed by the Chart of the General Ledger accounts dated 1 November 1953, as revised.

At this time, the Agency has established and maintains its accounts on a partial accrual basis to the extent that operating budget and management requirements have dictated a need for such financial information consistent with good accounting practices. The Agency's accounting system includes financial control for inventories and property for Headquarters' activities and certain selected field installations in specified locations.

The Agency has also maintained a detailed cost system geared to the allotment account structure established by the Budget Division for control of funds. The cost system controls expenses for operating components, programs, projects and specific activities consistent with budget data necessary

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to permit the preparation of a detailed budget for submittal by organizational components responsible for the Agency's operations. In effect, the system controls the recording of direct costs to the organizational component, program, project or activity. It further controls the distribution of transportation costs and the issue value of certain property items to the using components on a direct cost basis. Costs resulting from property transactions at certain specified field stations are reflected in the Agency's financial reports through consolidation process. They are not an integral part of the accounting system in the true sense, i.e., they are not reflected in the control accounts maintained at headquarters from which the Confidential Funds Trial Balance is prepared. There is no distribution or proration of overhead items such as services, management, and top level administration direction to the functional activities of the Agency; namely, Overt Collection of Intelligence, Covert Collection of Intelligence, Intelligence Production, Intelligence Reference Service, PP and PM. Nor is there a distribution or proration of these costs to the organizational components, programs, projects or activities benefitting therefrom.

To accomplish the principal objectives of the Program for Improvement of Financial Management giving recognition to the operation and objectives of the Agency, it appears that such improvements should be segregated into three separate categories; namely, (1) expansion of the existing accrual expenditure system, including inventory and property, and the cost system, (2) adoption and installation of specific phases of accrual accounting and cost distribution heretofore held in abeyance, and (3) modification or elimination of the Property Authorization Procedure in favor of a single

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allotment to the allottee to cover cash expenditures and property issues with reimbursement being effected to a procurement fund(s) by means of allotment control devices. Recognition should also be given to certain items which might be subject to accrual accounting and cost distribution which, because of Agency operations, are considered unnecessary or undesirable, the exclusion of which would still permit the Agency to conform with the overall objectives of the Program for Improvement of Financial Management and the submission of a cost-based budget to the Bureau of the Budget.

The following comments relate specifically to the numbered recommendations of the Hoover Commission on Organization of the Executive Branch of the Government on Budget and Accounting with pertinent comments as to the Agency's position from an accrued accounting and cost system indicating what additional steps are necessary for full compliance consistent with the Agency's operations:

Recommendation No. 1

To be answered by the Budget Division.

Recommendation No. 2

To be answered by the Budget Division

Recommendation No. 3

To be answered by the Budget Division.

Recommendation No. 4

To be answered by the Budget Division

Recommendation No. 5

It is believed that the Confidential Funds accounting system including cost

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and property accounting is synchronized to conform with the present organizational structure and that budget classifications used for accounting control purposes are consistent throughout the Agency. Changes will have to be made, however, for budget presentation purposes only, if distribution or proration of indirect costs are to be applied to operating components, programs, projects or activities for purposes of assembling data for submission of a cost-based budget by major functional activity. Recommended changes in the accounting system are as follows:

- (a) Costs and property assets applicable to certain specific Class A stations be made an integral part of Headquarters accounting system.
- (b) A single allotment be made to each allottee to cover direct and indirect (property) costs and appropriate modification of the Property Authorization Procedure.

Recommendation No. 6

In order that the Agency budget may be formulated and administered on a cost basis, certain changes must be made with respect to accounting treatment from both an accrued expenditure and cost concept. In this regard, it appears that there are five major areas which require modification in the accounting systems. They are as follows:

- (a) The treatment of advances made for operational purposes and chargeable to project activities as an expenditure at the time of the advance. This would exclude advances to Class B Stations and cash on hand at Class A Stations, and accounts receivables in the true sense;
- (b) The recording of expenditures at the time firm liabilities, such as contracts and accounts payable, are reflected in the accounts;

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- (c) The recording as an expense and an expenditure an amount equal to accrued salary payable;
- (d) The recording as an expense and an expenditure amounts subject to reimbursement after the end of a fiscal year covering such items as annual billing from other government agencies because of cover accommodations;
- (e) The recording of property acquisitions resulting from purchase and an expenditure at time of receipt.

It is not anticipated that depreciation or accrued annual leave need be made a part of the Agency's cost-based budget for the following reasons:

1. The inventory or unconsumed stores will eventually be utilized in the form of project or administrative cost and does not generally constitute fixed assets in the structural sense such as dams, reservoirs, power plants and similar types of assets owned by other government agencies from which revenue would be derived from the operation of any such facilities;

2.



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appear prudent to attempt to cost accrued annual leave in anticipation of payment of such leave to an employee separating from the Federal service or transferring to some other agency. Coupled with this is the large number of individuals under contract and the varying conditions under which leave is granted to such employees or agents.

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The accounting treatment to be afforded the Agency's investment in real property and the contemplated construction of an Agency Headquarters building with respect to depreciation will be given further consideration at a later date. At the present time, real estate owned and real estate improvements to owned and leased property are reflected in the Agency's trial balance offset by a reserve equal to the amount of such assets and improvements based on information received from the Logistics Office, Real Estate and Construction Division. Acquisition cost and improvements to real property will be treated as direct costs subject to proration to the programs and projects sponsored and controlled by the particular station or major functional activity such as FI, PP, PM, etc. Accordingly, depreciation in the true sense will not be reflected in the cost-based budget.

Recommendation No. 7

The Agency's budget and required appropriation can be made to reflect the estimated annual accrued expenditure concept based on the cost of goods and services estimated to have been received by modifying the accrued accounting and cost systems as prescribed under recommendation number 6 above.

Recommendation No. 8

Action to be taken by the Congress.

Recommendation No. 9

Action to be taken by the Bureau of the Budget.

Recommendation No. 10

It is felt that the Comptroller's Staffs, namely, TAS and PAS have comparable primary responsibility for carrying out the various recommendations at the Agency level. In this regard, emphasis will be given to the establishment

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of control and subsidiary or clearing accounts deemed necessary by the accounting divisions to permit effective control and recording of financial transactions.

Recommendation No. 11

The Agency has a Comptroller.

Recommendation No. 12

To be administered by the appropriate Career Service Board.

Recommendation No. 13

To be answered by the Budget Division. In this regard, it is to be noted that the Program for Improvement for Financial Management states that allotments of funds should be made at the highest practical level (see Page 11 Simplification of Allotment Structure), that accounting processes other than allotments should be employed to develop necessary operating and management data through the use of cost classifications and allotment systems are intended solely for controlling available funds and that accounting processes other than allotments should be employed to develop necessary data as a basis for controlling cost-based budgets.

Recommendation No. 14

The Agency's accounting and cost systems will be revamped in order that its accounts will be kept on an accrued basis to show currently, completely and clearly all resources and liabilities and costs of operations. Agency budgeting and financial reporting will be developed from data reflected from such accrual accounting. This is exclusive of depreciation and accrued annual leave.

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Recommendation No. 15

Full implementation of an integrated accrual and cost should avoid the need for a revolving fund, in the formal legislative sense, for the management and costing of supplies and materials.

Recommendation No. 16

Monetary property accounting records will be expanded as a part of the accounting system to the extent that the value of property on hand and in use at specified locations warrants such financial control.

Recommendation No. 17

A single account under the Agency's appropriation will be established for purposes of controlling the amount available for the liquidation of valid obligations applicable to lapsed appropriations.

Recommendation No. 18

Valid claims against lapsed appropriations are and will be settled within the Agency against the account referred to under recommendation number 17 above.

Recommendation No. 19

Protection of the security of Agency sources and methods generally requires administration of authorities to relieve accountable officers within the administrative processes of the Agency.

Recommendation No. 20

Action to be taken by the Bureau of the Budget.

Recommendation No. 21

Action to be taken by the Treasury Department.

Recommendation No. 22

Action to be taken by the Congress. Comparable to this recommendation is the functional responsibility of the Program Analysis Staff of the

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Comptroller's Office with respect to the development of comprehensive reports needed by administrative, management and other operating officials.

Recommendation No. 23

Subject to action by the appropriate Career Service Board.

Recommendation No. 24

Action by the Military Departments.

Recommendation No. 25

Action by the Bureau of the Budget in determining the scope and adequacy of the Agency's internal audit program as conducted by the Office of Audit.

To conform the Agency's accounting system with the objectives expressed in the recommendations referred to above, it is proposed that the following changes be made in the accounting treatment of Confidential Funds transactions in order that the Agency's financial and cost procedures will reflect the maximum in accrual accounting and cost distribution:

- (a) The following transactions to be treated simultaneously as an expenditure and a cost, as well as being reflected in the accounts as asset with offsetting credit in a reserve account. Undisbursed or unconsumed assets to be treated as a deduction against the cost-based budget presentation;
 - (1) All advances other than advances to Class B stations and cash on hand at Class A stations.
 - (2) Property acquisitions resulting from procurement.
 - (3) Investments in Proprietary Project and Securities.
 - (4) Cached Funds and Commodities.
- (b) Firm liabilities will be recorded based on appropriate documentation

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covering amounts due contractors, suppliers, and other government agencies, with expenditure and cost being recorded at time of processing such documentation.

- (c) Property in Use (including administrative equipment) as well as issues to be reflected in the cost accounts and allotment system. Returns of property from in use and from project costs to be credited to the respective component or project.
- (d) Recognition of accrued salaries payable.
- (e) Recognition of amounts subject to reimbursement after the end of the fiscal year covering supplies or services received during the current fiscal year.
- (f) Integration of all financial data in the accounting records and accounts at Headquarters.
- (g) Issuance of a single allotment to each allottee to cover direct (cash) expenses and indirect (property issues) costs with appropriate modification to the Property Authorization Procedure embracing the reimbursement to the Procurement Fund(s) by means of allotment control devices.

Concentrated effort will be made for recording costs on a direct basis to the benefiting element or activity in order that the necessity to prorate or distribute indirect cost for reporting and budgetary purposes will be held to a minimum. This will be accomplished at the time consolidated financial statements are prepared and will not be reflected in the accounts maintained by the accounting division on the Comptroller's Office. Costs subject to proration or distribution will be treated as work paper adjustment.

Full utilization of General Ledger accounts and subsidiary records to

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include clearing accounts, trust accounts and appropriate deferred debit and credit accounts will be maintained to satisfy financial recording of Agency transactions.

Full recognition will be given to the significance of a cost-based budget through the recording of financial transactions which affect future years operations as it pertains to the cost of unconsumed or undisbursed resources delivery under procurement programs and utilization of such inventories. Action will be taken to emphasize cost control in sufficient detail to adequately reflect dollar cost of operations for components, programs, projects or activities. Every effort will be made toward the reduction of allotment accounts as a means of controlling funds on a functional basis at the highest practical level.

It is anticipated that full accomplishment of the program covered herein will be effected not later than 30 June 1960. Although, it is required that certain inaccuracies will occur during this period submission of a cost type budget will be presented for FY 1959 in expectation that costs and expenditures will be substantially accurate as of 30 June 1960 and each year thereafter.



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